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ROTHMANS OF PALL MALL CANADA LIMITED



ANNUAL REPORT 1970



*Rothmans*

THE GREATEST NAME  
IN CIGARETTES



# ROTHMANS OF PALL MALL CANADA LIMITED

## ANNUAL REPORT 1970

### HIGHLIGHTS

	1970	1969
SALES - - - - -	\$461,707,000	\$205,871,000
NET EARNINGS - - - - -	7,064,000	5,856,000
Per Common Share - - - - -	\$0.76	\$3.30
DIVIDENDS ON PREFERRED SHARES - -	5,613,000	526,000
DIVIDENDS ON COMMON SHARES - - -	1,200,000	1,600,000
Per Common Share - - - - -	\$0.75	\$1.00
WORKING CAPITAL - - - - -	52,839,000	18,739,000
TOTAL ASSETS - - - - -	420,835,000	104,591,000
SHAREHOLDERS' EQUITY - - - - -	139,019,000	45,353,000
Book Value Per Common Share - - - - -	\$14.21	\$15.81



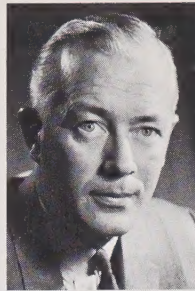
## Directors



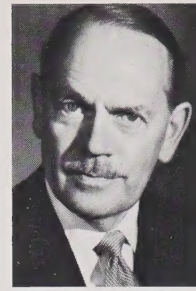
HAROLD S. FOLEY, VANCOUVER  
PRESIDENT  
SCANLON HOLDINGS LIMITED



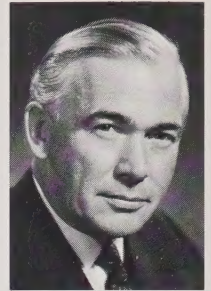
PAUL J. ERASMUS, TORONTO  
PRESIDENT  
CANADIAN BREWERIES LIMITED



JOHN H. DEVLIN, TORONTO  
CHAIRMAN OF THE BOARD  
ROTHMANS OF PALL MALL  
CANADA LIMITED



SIR FRANCIS DE GUINGAND,  
K.B.E., C.B., D.S.O.  
LONDON, ENG.  
FORMERLY CHAIRMAN  
CARRERAS LIMITED



JOEL W. ALDRED, TORONTO  
PRESIDENT  
JOEL W. ALDRED LIMITED

## Honorary Chairman

THE RIGHT HONOURABLE LOUIS STEPHEN ST-LAURENT, P.C., C.C., Q.C., LL.D.

## Officers

*Chairman of the Board*

JOHN HERBERT DEVLIN

*President*

WILMAT TENNYSON

*Vice President and General Counsel*

ROBERT HOWIE HAWKES, Q.C.

*Vice President Finance and Treasurer*

JACQUES LAVERDIÈRE

*Vice President Production*

CAMILLE DENIS

*Vice President Sales*

ROBERT THOMAS LLOYD

*Vice President Advertising*

ROY HENRY NEWTON

*Vice President Public Relations*

PETER WALTON BONE

*Secretary and Assistant General Counsel*

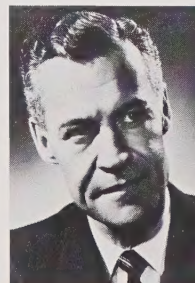
NORMAND ROBERT ZADRA



CHARLES A. MASSEY, TORONTO  
FORMERLY PRESIDENT  
LEVER BROTHERS LIMITED



FREDERICK L. PATTERSON,  
POINTE CLAIRE, P.Q.  
PRESIDENT  
BROOKE BOND CANADA LTD.



RENAULT ST-LAURENT, Q.C., LL.D.  
QUEBEC, P.Q.  
PARTNER—ST-LAURENT, MONAST,  
DESMEULES & WALTERS



JOHN E. SHAFFNER,  
PORT WILLIAMS, N.S.  
FORMERLY PRESIDENT  
M. W. GRAVES & CO. LTD.



WILMAT TENNYSON, TORONTO  
PRESIDENT  
ROTHMANS OF PALL MALL  
CANADA LIMITED

## Directors' Report

During the year under review, your Company increased its investment in Canadian Breweries Limited and now holds a majority interest (50.1 percent) in the total outstanding Common shares of that company. Accordingly, this report includes the results of Canadian Breweries for the first time. Such results have been included on the basis of your Company's ownership of Canadian Breweries Common shares at various points during the current and previous financial years: July 1, 1968 to October 31, 1969—11 percent, and 50.1 percent thereafter. For your information, we enclose a copy of the Canadian Breweries Limited report for the period ended June 30, 1970.

### Financial Results

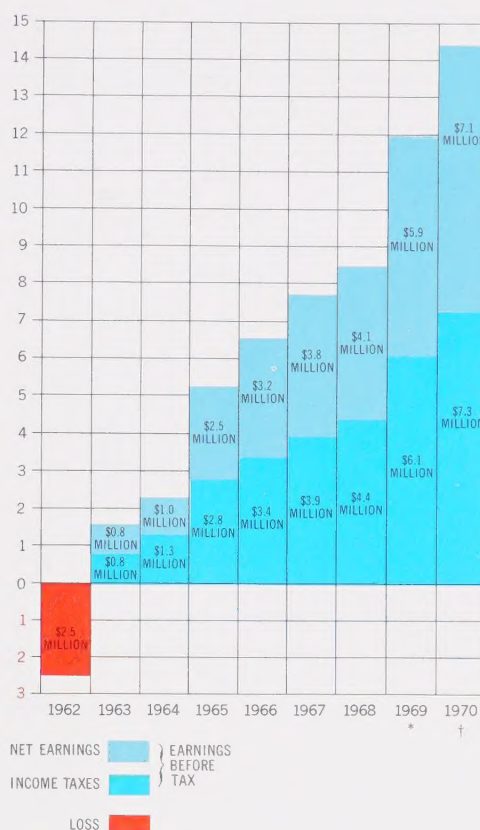
Including Canadian Breweries Limited, sales for the year ended June 30, 1970 were \$461.7 million. After providing for dividends on the Preferred shares, net earnings per Common share were \$0.76 compared to \$3.30 in 1969.

In view of these results, your Company decided to forgo the quarterly dividend on Common shares which would otherwise have been paid in June 1970. Three quarterly dividends totalling 75 cents per Common share had already been paid during the financial year. Paying a fourth regular dividend would have meant a cash disbursement substantially in excess of the total earnings available to Common Shareholders.

### Earnings Before Tax and Net Earnings

FINANCIAL YEARS ENDED JUNE 30

MILLION \$



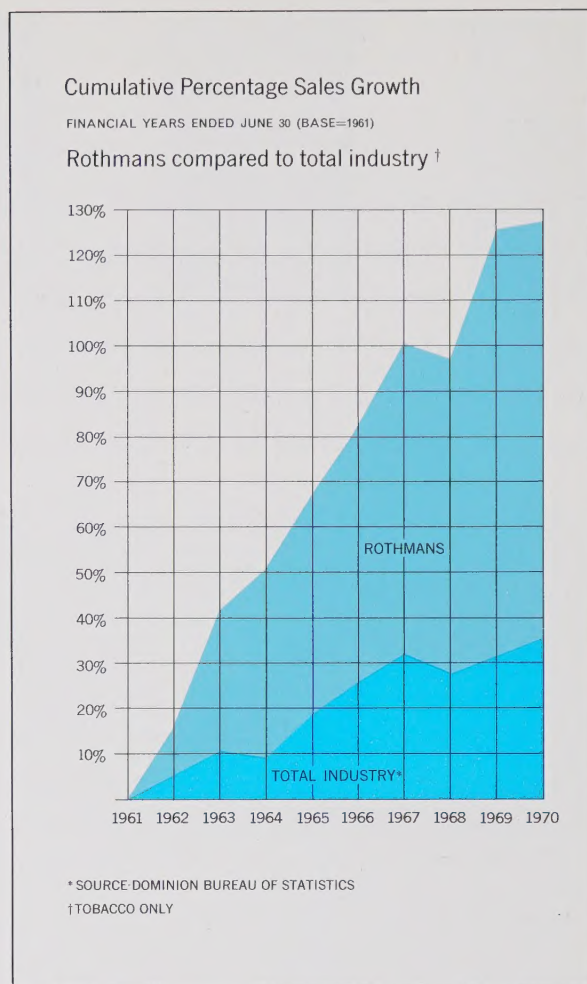
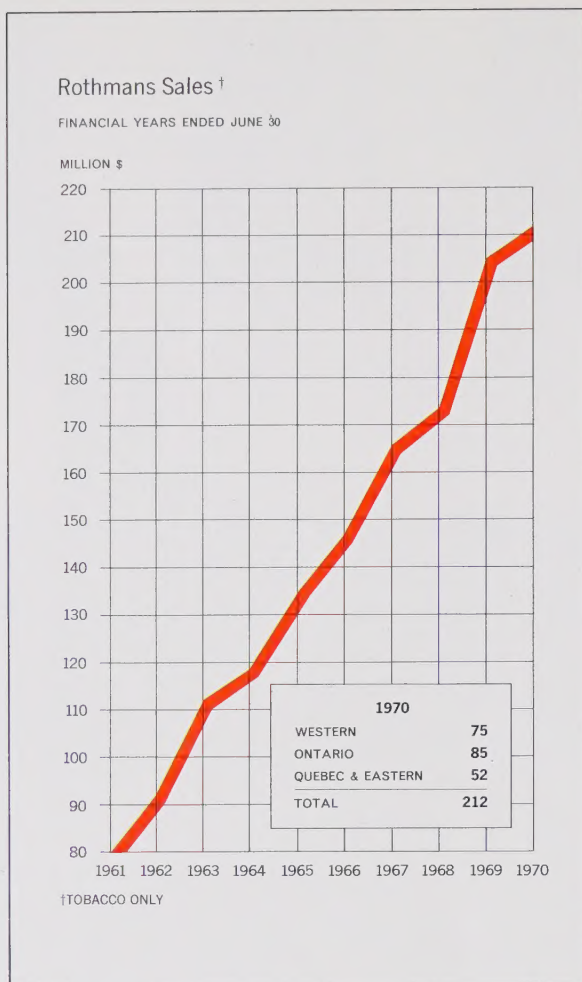
\*Restated

†Consolidated with Canadian Breweries Limited, excluding minority interest and related income taxes.

### Tobacco Operations

Rothmans cigarette sales increased to 11,804 million units in 1970 from 11,712 million in 1969; an increase of 92 million cigarettes, or 0.8 percent. Industry sales for the same periods, as reported by the Dominion Bureau of Statistics, increased to 48,444 million cigarettes from 47,083 million; an increase of 1,361 million or 2.9 percent.





Filter and king size cigarette segments of the Canadian market continued their growth. Filter cigarettes presently account for 85 percent of the total market, compared to 82 percent a year ago. King size cigarettes, including luxury length, increased their share of total market by slightly under one percent, to 49 percent.

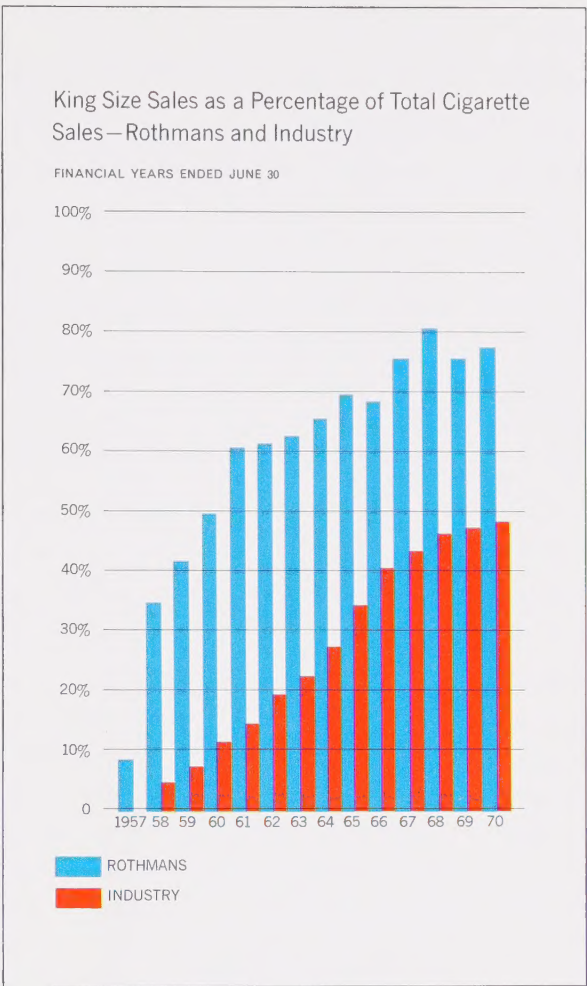
Effective July 1, 1970, the Canadian cigarette industry agreed to discontinue cash prizes and other major gifts. Competitive activity in this segment of the market reached a record 63 percent of the

total market, compared to 53 percent a year ago. It is anticipated that many cigarette consumers will now return to former brand loyalties and particularly to those brands which did not use this type of promotion.

Rothmans King Size maintained its position as Canada's largest selling king size cigarette. The Craven family, consisting of Craven "A", Craven King Size, and Craven Menthol, showed remarkable strength during this same period, and increased its sales over the previous year.

Number 7 and Sportsman brands, your Company's entries in the give-away segment of the market, performed exceptionally well and contributed substantially to total sales.

On July 22, 1970, the Department of National Health and Welfare issued its fourth table of the ratings of tar and nicotine content of Canadian cigarettes brands. As in previous reports, Craven "A" Filter Regular was among the lowest in the tar and nicotine ratings, thus substantiating your Company's claim that "Craven "A" filters best for good taste in smoking".



Following the submission of a brief by the Canadian Tobacco Industry on June 5, 1969, the Standing Committee on Health, Welfare and Social Affairs on Tobacco and Cigarette Smoking published its findings and recommendations. Since the publication of these recommendations, the Ad Hoc Committee representing the Canadian Tobacco Industry has held numerous discussions with representatives of the Department of National Health and Welfare. At the time of writing this report, no action has been taken by the Federal Government on this matter.



### *Taxes on Cigarettes*

Federal and Provincial taxes on cigarettes remained unchanged during the year and are as follows:

#### *Federal*

##### PER PACK OF KING SIZE CIGARETTES:

	<u>20's</u>	<u>25's</u>
Excise Duty	8.0¢	10.0¢
Excise Tax	12.0¢	15.0¢
Sales Tax	2.5¢	3.2¢
	<u>22.5¢</u>	<u>28.2¢</u>

#### *Provincial*

##### PER PACK OF:

	<u>20's</u>	<u>25's</u>
British Columbia	2¢	3¢
Alberta	7¢	8¢
Saskatchewan	7¢	8¢
Manitoba	8¢	10¢
Ontario	8¢	10¢
Quebec	8¢	10¢
New Brunswick	8¢	10¢
Nova Scotia	8¢	10¢
Prince Edward Island	8¢	10¢
Newfoundland	14¢	18¢

From Manitoba to Prince Edward Island, Federal and Provincial taxes combined represent 30.5 cents per pack of 20 king size cigarettes, or approximately 60 percent of the suggested retail price.

#### *Leaf Tobacco*

The 1969 Ontario flue-cured tobacco crop was 13 percent greater than originally forecast and totalled 226 million pounds (1968—200 million pounds). The average price paid for this crop was 66 cents per pound, compared to 71 cents in 1968. Your Company paid an above-average price of

70 cents per pound (1968—75 cents) to ensure the highest quality in its products.

The acreage allotment for the 1970 Ontario flue-cured tobacco crop was 93,400 acres (1969—120,500 acres). This acreage is estimated to yield approximately 175 million pounds.

Your Company's purchases from the 1969 tobacco crops in the Province of Quebec and the Maritimes were approximately 40 percent of the total available in those Provinces.

#### *Employee Relations*

Labour contracts were renewed for two-year terms with employees in Toronto and Quebec plants effective December 21, 1969 and March 20, 1970 respectively. These contracts include wage increases of 10 percent in the first year and 8 percent in the second year. A general improvement in vacation and certain welfare plans was also put into effect.

#### *Other Operations*

Your Company recently acquired all the issued and outstanding stock of Alfred Dunhill of London, Limited—the Canadian distributor for the well-known, London-based company. This subsidiary company will handle all of the Dunhill tobacco products and smokers' accessories. It will also distribute other well-known tobacco products manufactured by associated U.S. and overseas companies, and will be one of the major franchise holders for imported Cuban cigars.



During the year, your Company sold, at cost, its 50 percent interest in Rothmans Holdings Corporation which holds all the outstanding shares of Larus & Brother Company (the House of Edgeworth) of Richmond, Virginia, to Rothmans of Canada Limited, the Canadian holding company of the World Group. Your Company made this decision for two reasons: firstly, its prime interest is to increase its share of the Canadian cigarette market; and secondly, Larus requires substantial investment capital to expand international export markets.

Your Company, through its wholly-owned subsidiary, Alfred Dunhill of London, Limited, will continue to merchandise in Canada the world-famous House of Edgeworth products.

### General

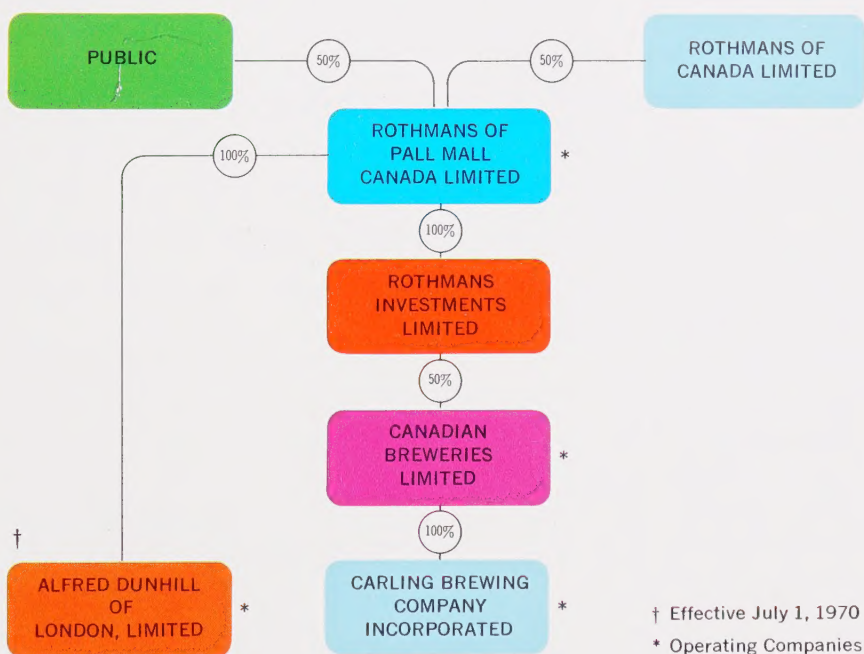
The Annual Meeting of Shareholders will be held on October 15, 1970. The formal notice of meeting and proxy form are enclosed with this report.

On behalf of your Directors, I wish to express their appreciation to all officers and employees for their dedication during the year, and thank the shareholders for their loyal support.

*John H. Devlin*

Chairman of the Board

*This chart outlines the corporate relationship between your Company, its main subsidiaries and Rothmans of Canada Limited (after the exercise of all Share Purchase Warrants presently outstanding)*



# PRICE WATERHOUSE & CO.

CHARTERED ACCOUNTANTS

P.O. BOX 51

TORONTO-DOMINION CENTRE

TORONTO 111

## Auditors' Report

TO THE SHAREHOLDERS OF ROTHMANS OF PALL MALL CANADA LIMITED:

We have examined the consolidated balance sheet of Rothmans of Pall Mall Canada Limited and subsidiary companies as at June 30, 1970 and the consolidated statements of earnings, retained earnings, and changes in working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1970 and the results of their operations and the changes in their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the changes, which we approve, described in Note 11 to the financial statements.

August 21, 1970

*Price Waterhouse & Co.*  
Chartered Accountants.



ROTHMANS OF PALL MALL CANADA LIMITED  
AND SUBSIDIARY COMPANIES

# Consolidated Statement of Earnings

(in thousands of dollars)

	Year ended June 30			1969 Tobacco Only (restated)
	1970 Tobacco	Brewing (Note 1)	Total	
Income:				
Sales - - - - -	\$211,981	\$249,726	\$461,707	\$205,871
Less—Excise and sales taxes - - - - -	132,702	90,856	223,558	131,125
	79,279	158,870	238,149	74,746
Investment and other income - - - - -	492	4,402	4,894	1,530
	79,771	163,272	243,043	76,276
Costs (Notes 14 and 15):				
Raw materials and manufacturing expenses -	47,203	98,266	145,469	45,610
Marketing and distribution expenses - - -	14,257	40,554	54,811	12,203
Administrative and general expenses - - -	4,431	9,759	14,190	3,161
Other expenses (Note 16) - - - - -	—	1,008	1,008	—
Interest and expense on long term debt - -	1,141	1,707	2,848	1,157
Other interest - - - - -	2,544	—	2,544	2,215
	69,576	151,294	220,870	64,346
Earnings before income taxes, extraordinary items and minority interest - - - - -	10,195	11,978	22,173	11,930
Income taxes:				
Current - - - - -	5,556	4,962	10,518	6,472
Deferred - - - - -	(174)	888	714	(398)
	5,382	5,850	11,232	6,074
Earnings before extraordinary items and minority interest - - - - -	4,813	6,128	10,941	5,856
Extraordinary items, less related income taxes (Note 12) - - - - -	—	(139)	(139)	—
Earnings before minority interest - - - - -	4,813	5,989	10,802	5,856
Minority interest in consolidated earnings of Canadian Breweries Limited - - - - -	—	3,738	3,738	—
Earnings for the year - - - - -	\$ 4,813	\$ 2,251	\$ 7,064	\$ 5,856
Earnings per Common Share (Note 13) - - -			\$ 0.76	\$ 3.30

ROTHMANS OF PALL MALL CANADA LIMITED  
AND SUBSIDIARY COMPANIES

# Consolidated Statement of Retained Earnings

(in thousands of dollars)

	Year ended June 30	
	1970	1969 (restated)
Balance at beginning of year:		
As previously reported - - - - -	\$ 8,871	\$ 6,450
Adjustments (Note 11) - - - - -	482	(96)
As restated - - - - -	9,353	6,354
Earnings for the year - - - - -	7,064	5,856
Commission and expense on Preferred Share issues - - - - -	(1,912)	(771)
Excess of original cost of non-consolidated subsidiary over net worth when purchased, less minority interest of \$698 (Note 1) - - - - -	(702)	—
Excess of par value over cost of Preference Shares purchased for cancellation by Canadian Breweries Limited, less minority interest of \$28 - - -	29	40
	13,832	11,479
Dividends on Preferred Shares - - - - -	5,613	526
Dividends on Common Shares - - - - -	1,200	1,600
	6,813	2,126
Balance at end of year - - - - -	\$ 7,019	\$ 9,353



ROTHMANS OF PALL MALL CANADA LIMITED  
AND SUBSIDIARY COMPANIES

# Consolidated Statement of Changes in Working Capital

(in thousands of dollars)

	Year ended June 30	
	1970	1969 (restated)
<i>Working capital was increased by:</i>		
Earnings for the year - - - - -	\$ 7,064	\$ 5,856
Add/(Deduct):		
Depreciation - - - - -	6,564	1,832
Minority interest in consolidated earnings of Canadian Breweries Limited - - - - -	3,738	—
Deferred income taxes and other - - - - -	1,347	(346)
Funds from operations - - - - -	18,713	7,342
Preferred Shares issued - - - - -	96,000	20,000
Reduction in investment in associated companies - - - - -	3,028	—
Sales of property, plant and equipment, sundry properties and other assets—net - - - - -	1,996	454
	<u>119,737</u>	<u>27,796</u>
<i>Working capital was decreased by:</i>		
Investment in Canadian Breweries Limited excluding working capital acquired (Note 6) - - - - -	55,168	—
Investment in associated companies - - - - -	—	19,739
Property, plant and equipment additions - - - - -	15,990	1,637
Dividends on Preferred Shares - - - - -	5,613	526
Dividends on Common Shares - - - - -	1,200	1,600
Dividends paid by Canadian Breweries Limited to minority shareholders	4,902	—
Commission and expense on Preferred Share issues - - - - -	1,912	771
Retirement of long term debt - - - - -	852	250
	<u>85,637</u>	<u>24,523</u>
Increase in working capital - - - - -	34,100	3,273
Working capital at beginning of year- - - - -	18,739	15,466
Working capital at end of year- - - - -	<u>\$ 52,839</u>	<u>\$ 18,739</u>

## Consolidated

(in thousands)

ASSETS	June 30	
	1970	1969 (restated)
<b>Current Assets:</b>		
Cash and term deposits - - - - -	\$ 18,276	\$ —
Short term investments at cost which approximates market value - - - -	1,771	—
Accounts receivable - - - - -	37,633	10,573
Inventories (Note 2) - - - - -	86,832	50,950
Prepaid expenses - - - - -	5,096	1,003
<b>Total Current Assets - - - - -</b>	<u>149,608</u>	<u>62,526</u>
<b>Property, Plant and Equipment, at cost (Note 3) - - - - -</b>	242,092	22,312
Less—Accumulated depreciation - - - - -	<u>122,980</u>	<u>12,516</u>
<b>Total Property, Plant and Equipment - - - - -</b>	<u>119,112</u>	<u>9,796</u>
<b>Investments and Other Assets:</b>		
Subsidiary company not consolidated (Note 1) - - - - -	4,792	—
United Kingdom investments, at cost (Note 4) - - - - -	41,328	—
Mortgages, long term receivables and other investments (Note 5) - - - -	14,311	—
Associated companies (Note 6) - - - - -	9,399	31,739
Sundry properties (Note 7) - - - - -	<u>10,226</u>	<u>—</u>
<b>Total Investments and Other Assets - - - - -</b>	<u>80,056</u>	<u>31,739</u>
<b>Intangible Assets:</b>		
Goodwill, at cost (Note 1) - - - - -	71,570	—
Other, at cost less amounts written off - - - - -	489	530
<b>Total Intangible Assets - - - - -</b>	<u>72,059</u>	<u>530</u>

APPROVED ON BEHALF OF THE BOARD:

JOHN H. DEVLIN, *Director*JOEL W. ALDRED, *Director*

<u>\$420,835</u>	<u>\$104,591</u>
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## Balance Sheet

(in thousands of dollars)

LIABILITIES	June 30	
	1970	1969 (restated)
<b>Current Liabilities:</b>		
Bank indebtedness (secured) (Note 8) - - - - -	\$ 35,829	\$ 25,938
Notes payable - - - - -	5,040	—
Accounts payable and accrued liabilities - - - - -	29,171	4,583
Income taxes - - - - -	2,100	2,941
Excise, sales and other taxes - - - - -	17,716	7,871
Dividends payable to minority interest - - - - -	1,633	—
Affiliated companies - - - - -	5,280	2,454
<b>Total Current Liabilities</b> - - - - -	<u>96,769</u>	<u>43,787</u>
<b>Long Term Debt</b> (Note 9) - - - - -	62,830	14,500
<b>Total Liabilities</b> - - - - -	<u>159,599</u>	<u>58,287</u>
<b>DEFERRED INCOME TAXES</b> - - - - -	<u>13,585</u>	<u>951</u>
<b>MINORITY INTEREST IN CANADIAN BREWERIES LIMITED</b>		
Preferred Shares - - - - -	44,969	—
Common Shares - - - - -	63,663	—
<b>Total Minority Interest</b> - - - - -	<u>108,632</u>	<u>—</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital Stock</b> (Note 10):		
Authorized—		
500,000 First Preferred Shares of the par value of \$100 each, issuable in series		
3,825,000 Second Preferred Shares of the par value of \$20 each		
2,025,000 Third Preferred Shares of the par value of \$20 each		
7,950,000 Common Shares without nominal or par value		
Issued—		
200,000 6.85% Cumulative Redeemable First Preferred Shares, Series A	20,000	20,000
2,850,000 6 <sup>5</sup> / <sub>8</sub> % Convertible Cumulative Redeemable Second Preferred Shares (issued during the year for cash) - - - - -	57,000	—
1,950,000 6 <sup>5</sup> / <sub>8</sub> % Convertible Cumulative Redeemable Third Preferred Shares (issued during the year for cash) - - - - -	39,000	—
1,600,010 Common Shares - - - - -	16,000	16,000
	<u>132,000</u>	<u>36,000</u>
<b>Retained Earnings</b> (Note 11) - - - - -	7,019	9,353
<b>Total Shareholders' Equity</b> - - - - -	<u>139,019</u>	<u>45,353</u>
	<u>\$420,835</u>	<u>\$104,591</u>

ROTHMANS OF PALL MALL CANADA LIMITED  
AND SUBSIDIARY COMPANIES

# Notes to Consolidated Financial Statements

JUNE 30, 1970

## 1. Principles of consolidation and statement presentation:

The consolidated financial statements include the accounts of the Company and all of its subsidiaries except Beamish and Crawford Limited which is not significant to the consolidation. The results of operations of Canadian Breweries Limited and its subsidiary companies are included from November 1, 1969, the effective date of the Company's acquisition of a majority interest (50.1%). The Company's share (11%) of Canadian Breweries' consolidated earnings from July 1, 1968 to October 31, 1969 has been included in investment and other income.

Beamish and Crawford Limited, a subsidiary of Canadian Breweries Limited, has been managed by Bass Charrington Limited under an agreement which also provided it with a purchase option. Subsequent to June 30, 1970 Canadian Breweries Limited arranged to cancel this agreement and intends to assume the management of the subsidiary and to consolidate its operations for the 1971 fiscal period. In connection with the foregoing, the difference between the original cost of the investment in Beamish and Crawford Limited and the net worth when purchased in 1962 has been written off by a charge against retained earnings of \$702,000 (after minority interest of \$698,000). Accumulated losses of the subsidiary since acquisition have been provided for by charges against earnings.

The amount of \$71,570,000 shown on the consolidated balance sheet as goodwill represents the difference between the cost of the investment in shares of Canadian Breweries Limited and the book value of the underlying net assets at dates of acquisition.

The accounts of consolidated foreign subsidiary companies have been translated to Canadian dollars as follows:

Current assets and current liabilities at exchange rates in effect at June 30; property, plant and equipment and investments and other assets at rates in effect at dates of acquisition; income and costs at average rates for the period except for depreciation provisions which are on the same basis as the related property, plant and equipment.

Comparative figures for 1969 have been restated to reflect the retroactive adjustments described in Note 11 and certain reclassifications to conform with the Company's current financial statement presentation.

## 2. Inventories:

	1970	1969
Tobacco:		(restated)
Leaf tobacco - - - - -	\$38,866,000	\$33,453,000
Manufactured stock - - - - -	11,242,000	14,400,000
Packaging material and other - - - - -	3,003,000	3,097,000
	<u>53,111,000</u>	<u>50,950,000</u>
Brewing:		
Beer and ale finished and in process - - - - -	18,493,000	—
Materials and supplies - - - - -	9,419,000	—
Containers - - - - -	5,809,000	—
	<u>33,721,000</u>	<u>—</u>
	<u>\$86,832,000</u>	<u>\$50,950,000</u>

Inventories are valued at the lower of cost and net realizable value, except for containers which are carried at an estimated value lower than new replacement cost.



3. Property, plant and equipment:	1970		1969	
	Assets	Accumulated Depreciation	Assets	Accumulated Depreciation
Tobacco:				
Land - - - - -	\$ 1,201,000	—	\$ 1,153,000	—
Buildings - - - - -	4,454,000	1,608,000	3,370,000	1,502,000
Machinery - - - - -	16,962,000	11,316,000	15,504,000	10,026,000
Motor vehicles - - - - -	924,000	541,000	812,000	400,000
Leasehold improvements - - - - -	1,609,000	745,000	1,473,000	588,000
	<u>25,150,000</u>	<u>14,210,000</u>	<u>22,312,000</u>	<u>12,516,000</u>
Brewing:				
Land - - - - -	5,935,000	—	—	—
Buildings - - - - -	79,046,000	24,902,000	—	—
Machinery - - - - -	125,173,000	79,146,000	—	—
Motor vehicles - - - - -	6,491,000	4,641,000	—	—
Leasehold improvements - - - - -	297,000	81,000	—	—
	<u>216,942,000</u>	<u>108,770,000</u>	<u>—</u>	<u>—</u>
	<u>\$242,092,000</u>	<u>122,980,000</u>	<u>\$ 22,312,000</u>	<u>12,516,000</u>

Depreciation on tobacco assets has been recorded generally on the diminishing balance basis at rates normally allowed for income tax purposes. Depreciation on brewing assets has been provided generally on the straight line basis over the estimated useful lives of the assets.

Capital expenditures for the year ending June 30, 1971 are expected to aggregate \$21,000,000, of which \$4,000,000 is for tobacco and \$17,000,000 for brewing operations.

Rentals payable under non-cancellable lease agreements approximate \$704,000 annually.

#### 4. United Kingdom investments, at cost:

Shares in Bass Charrington Limited - - - - -	\$19,874,000
Hare Place Investments Limited - - - - -	21,454,000
	<u>\$41,328,000</u>

The aggregate quoted value of these investments at June 30, 1970 approximates their cost.

Subsequent to the year end an agreement was reached with the other shareholder to liquidate Hare Place Investments Limited and distribute its assets pro rata to the two shareholders. The assets of Hare Place consist of minority interests in shares of various United Kingdom breweries and cash advances to Bass Charrington Limited.

#### 5. Mortgages, long term receivables and other investments:

Mortgages receivable - - - - -	\$ 8,362,000
Long term receivables - - - - -	5,422,000
Other investments - - - - -	527,000
	<u>\$14,311,000</u>

Certain mortgages and other investments which Canadian Breweries Limited proposes to liquidate are carried at their estimated realizable value.

#### 6. Shares in and advances to associated companies:

	1970	1969 (restated)
Canadian Breweries Limited, at equity - - - - -	\$ —	\$29,410,000
Rothmans Holdings Corporation, at cost - - - - -	—	1,610,000
Other, at cost - - - - -	9,399,000	719,000
	<u>\$ 9,399,000</u>	<u>\$31,739,000</u>

At June 30, 1969, Rothmans Investments Limited, a wholly-owned subsidiary company, owned 2,400,000 common shares (11%) of Canadian Breweries Limited, acquired at a total cost of \$28,800,000 subsequently reduced to \$26,400,000 by a special dividend received. During the year ended June 30, 1970, Rothmans Investments Limited acquired the 8,373,200 common shares of Canadian Breweries held by Rothmans Holdings Canada Limited, an associated company, for a total consideration of \$108,595,000, being the latter's cost plus carrying charges, less dividends received. In addition, Rothmans Investments purchased a further 134,287 common shares of Canadian Breweries for \$1,344,000, bringing Rothmans' total investment to 10,907,487 shares (50.1%) at June 30, 1970.

The accounts of Canadian Breweries Limited and its subsidiary companies are now included in the consolidated financial statements (see Note 1). The effect on consolidated working capital for the year ended June 30, 1970 is determined as follows:

Total cost of investment - - - - -	\$136,339,000
Cost of investment at June 30, 1969 - - - - -	28,800,000
Working capital of Canadian Breweries Limited at November 1, 1969 - - - - -	52,623,000
Share of Canadian Breweries' earnings in excess of dividends received for the 4 months ended October 31, 1969 - - - - -	(252,000)
	<u>81,171,000</u>
	<u>\$ 55,168,000</u>

During the year ended June 30, 1970, the Company sold, at cost, its investment in Rothmans Holdings Corporation to an affiliated company. Rothmans Holdings Corporation owns all of the outstanding shares of Larus & Brother Company of Richmond, Virginia.

Other shares and advances of \$9,399,000 at June 30, 1970 relate to associated companies of Canadian Breweries Limited.

## 7. Sundry properties:

These properties comprise former breweries (some of which have been demolished), related land and other real estate which Canadian Breweries Limited intends to sell or redevelop. They are recorded at the lower of cost and estimated realizable value.

## 8. Bank indebtedness:

Bank indebtedness arises from tobacco operations only and is secured by the related accounts receivable and inventories.

## 9. Long term debt:

Long term debt consists of the following Sinking Fund Debentures:

	Outstanding
Rothmans of Pall Mall Canada Limited—	
Series A 7½% due January 3, 1988 - - - - -	\$14,500,000
Canadian Breweries Limited—	
Series A 4¾% due January 15, 1979 - - - - -	4,671,000
Series B 4¼% due January 15, 1981 - - - - -	7,082,000
Series C 5% due January 15, 1983 - - - - -	6,853,000
Series D 5½% due April 1, 1986 - - - - -	11,983,000
Series E 5½% due April 1, 1989 - - - - -	17,991,000
	<u>63,080,000</u>
Less—Amount included with current liabilities - - - - -	250,000
	<u>\$62,830,000</u>

The remaining sinking fund requirements payable for the years 1972 through 1975 are as follows: 1972—\$3,299,000; 1973—\$4,482,000; 1974—\$4,600,000; 1975—\$4,600,000.

The Rothmans' debentures and the Canadian Breweries' Series C, D and E debentures are payable in Canadian funds. The Canadian Breweries' Series A and B debentures are payable in either Canadian or U.S. funds at par, at the option of the holder.

## 10. Capital stock:

By supplementary letters patent dated September 15, 1969, the authorized capital stock of the Company was increased by:

- (i) creation of 3,825,000 Second Preferred Shares of the par value of \$20 each.
- (ii) creation of 2,025,000 Third Preferred Shares of the par value of \$20 each.
- (iii) creation of an additional 5,850,000 Common Shares without nominal or par value.

The Series A First Preferred Shares will not be redeemable before January 27, 1979, but will be redeemable on or after that date at the option of the Company at the amount paid up thereon together with a premium of \$3 per share if redeemed on or after January 27, 1979 and before January 27, 1984, of \$2 per share if redeemed on or after January 27, 1984 and before January 27, 1989 and of \$1 per share if redeemed on or after January 27, 1989.

The Second and Third Preferred Shares will not be redeemable before November 1, 1979 but will be redeemable on or after that date at the option of the Company at the amount paid up thereon. These shares will be convertible at the holder's option into Common Shares of the Company on the basis of 1 Common Share for each Preferred Share converted on or before October 31, 1974 and thereafter on the basis of 1 Common Share for each 1¼ Preferred Share converted on or before October 31, 1979. After October 31, 1979, the Second and Third Preferred Shares will not be convertible into Common Shares of the Company.

The Series A Debentures and the Series A Preferred Shares were issued with warrants to purchase Common Shares of the Company. The warrants are exercisable at prices from \$20.94 to \$27.50 per Common Share, depending on conversions of Second and Third Preferred Shares and date of exercise. After January 3, 1978, the warrants expire.



Of the authorized and unissued Common Shares, 5,149,990 shares are reserved for the possible exercising of warrants issued with the Series A Debentures and the Series A Preferred Shares and the possible conversion of Second and Third Preferred Shares.

#### 11. Retained earnings:

The balance of retained earnings at June 30, 1969 has been restated from amounts previously reported to reflect the following retroactive adjustments:

	Effect of the changes on		
	Retained Earnings at June 30, 1969	Earnings for the year ended June 30, 1969	Retained Earnings at June 30, 1968
Excess of 11% interest in consolidated earnings of Canadian Breweries Limited from July 1, 1968 to June 30, 1969 over dividends received - - - - -	\$570,000	\$570,000	\$ —
11% of excess of par value over cost of preference shares purchased for cancellation by Canadian Breweries Limited from July 1, 1968 to June 30, 1969 -	40,000	—	—
Interest on leaf used previously included in inventories, less related income taxes of \$145,000 - - - - -	(128,000)	(32,000)	(96,000)
	<u>\$482,000</u>	<u>\$538,000</u>	<u>\$(96,000)</u>

Covenants entered into in connection with the issue of the Series A Debentures and the various Preferred Shares include certain restrictions on the payment of dividends. Under the most restrictive of these provisions the Company cannot declare dividends on Common Shares unless, after providing for them, consolidated retained earnings will be not less than \$6,000,000 and all dividends on the Preferred Shares have been declared and either paid or provided for.

#### 12. Extraordinary items:

All of the following items pertain to brewing operations:

Deferred income tax adjustment related to the depreciated value for tax purposes of demolished former breweries - - - - -	\$ 529,000
Realized portion of profit on sale of investment in Canadian Equity & Development Company Limited	339,000
Exchange loss on working capital of United States subsidiaries arising from unpegging the Canadian dollar on June 1, 1970 - - - - -	(421,000)
Severance payments and other non-recurring costs of breweries closed during the period, less related income taxes of \$674,000 - - - - -	(586,000)
	<u>\$(139,000)</u>

#### 13. Earnings per Common Share:

The calculation of earnings per share figures shown on the consolidated statement of earnings is based upon 1,600,010 Common Shares which were outstanding during both 1970 and 1969. Dividends earned on the Preferred Shares from their respective dates of issue, \$5,848,000 in 1970 and \$582,000 in 1969, were deducted from consolidated earnings for purposes of these calculations. Exercising of the warrants issued with the Series A Debentures and the Series A Preferred Shares and conversion of the Second and Third Preferred Shares would not have a dilutive effect on the 1970 earnings per share.

#### 14. Remuneration of directors and senior officers:

Total remuneration of directors and senior officers during the year ended June 30, 1970 was \$629,000, including \$342,000 to directors in their capacity as directors and officers. Included in the foregoing amounts is \$149,000 paid by Canadian Breweries Limited to directors and officers of the Company in their capacity as directors and officers of Canadian Breweries Limited during the eight months ended June 30, 1970.

#### 15. Pensions:

The Company and its subsidiaries maintain a number of pension plans for their employees. Under one plan of Canadian Breweries Limited, prior service costs of approximately \$2,400,000 are being amortized over thirty years.

In addition to the above plans, Canadian Breweries Limited is paying supplementary pensions to a number of former employees. The aggregate supplemental payments for all future years are estimated at \$3,100,000.

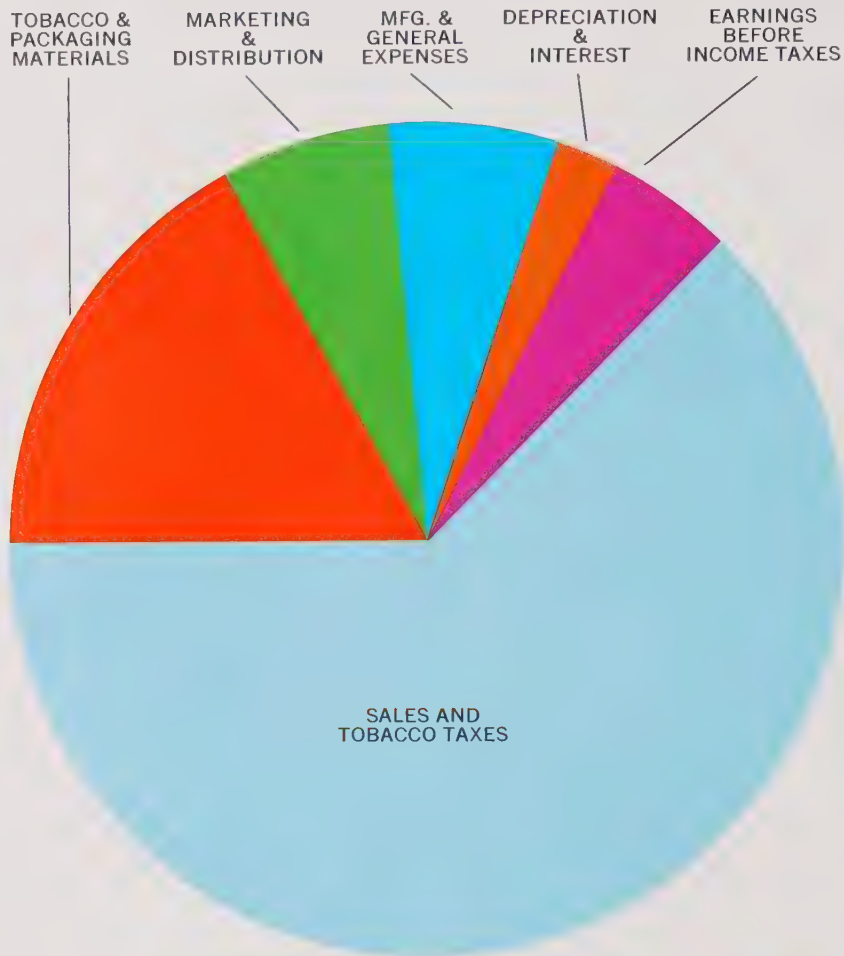
The charge against earnings for both regular and supplemental pensions was \$2,426,000 for the year ended June 30, 1970 (1969—\$289,000), including \$2,105,000 for Canadian Breweries for the eight months then ended.

#### 16. Other expenses:







Sundry properties expense - - - - -	\$ 583,000
Provision for losses of non-consolidated subsidiary (Note 1) - - - - -	425,000
	<u>\$1,008,000</u>

# Distribution of Tobacco Sales Dollar

AS A PERCENT OF TOTAL SALES



FINANCIAL YEARS  
ENDED JUNE 30

						
1970	62.6%	17.1%	6.9%	6.2%	2.4%	4.8%
1969	63.7%	17.2%	6.1%	5.4%	2.1%	5.5%
1968	63.3%	18.1%	6.2%	5.5%	2.0%	4.9%
1967	63.6%	18.3%	6.6%	5.1%	1.8%	4.6%
1966	65.1%	17.6%	6.3%	4.8%	1.7%	4.5%
1965	65.4%	17.2%	6.7%	5.1%	1.7%	3.9%
1964	66.7%	17.5%	6.8%	5.2%	1.9%	1.9%
1963	66.7%	17.7%	7.3%	5.3%	1.6%	1.4%
1962	67.0%	17.1%	11.1%	5.7%	1.8%	2.7%



# Nine-Year Financial Review

(in thousands of dollars)

## Operating:

### SALES

Tobacco - - - - -	21
Brewing - - - - -	24
Total - - - - -	46
Sales and Excise Taxes - - - - -	22
	23

### EARNINGS

Earnings before income taxes:

Tobacco - - - - -	1
Brewing - - - - -	1
Total - - - - -	2

Extraordinary items net of income taxes - (

Income taxes - - - - - 1

Minority interest - - - - -

Net earnings - - - - -

Net earnings per common share - - - - -

Common shares outstanding  
(in thousands) - - - - -

### DIVIDENDS PAID

Preferred - - - - -

Common - - - - -

CAPITAL EXPENDITURES—NET - - - - - 1

DEPRECIATION - - - - -

INTEREST EXPENSE - - - - -

## Financial:

### WORKING CAPITAL

Current assets - - - - -	14
Current liabilities - - - - -	9
	5

Ratio - - - - -

### TOTAL ASSETS

Current assets - - - - -	14
Fixed assets—net - - - - -	11
Investments and other assets - - - - -	8
Intangible assets - - - - -	7
	42

### LOANS AND INDEBTEDNESS

Debentures - - - - - 6

Other indebtedness - - - - -

Current bank loans and notes payable - - 4

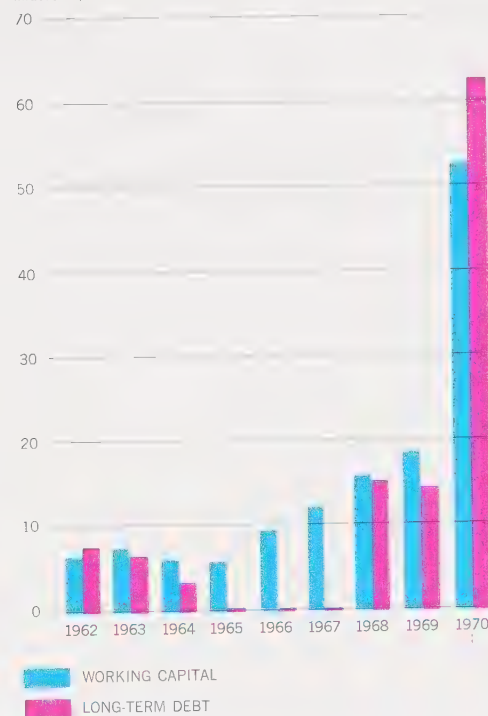
SHAREHOLDERS' EQUITY - - - - - 13

BOOK VALUE PER COMMON SHARE - - - - - \$

## Working Capital and Long-Term Debt

FINANCIAL YEARS ENDED JUNE 30

MILLION \$



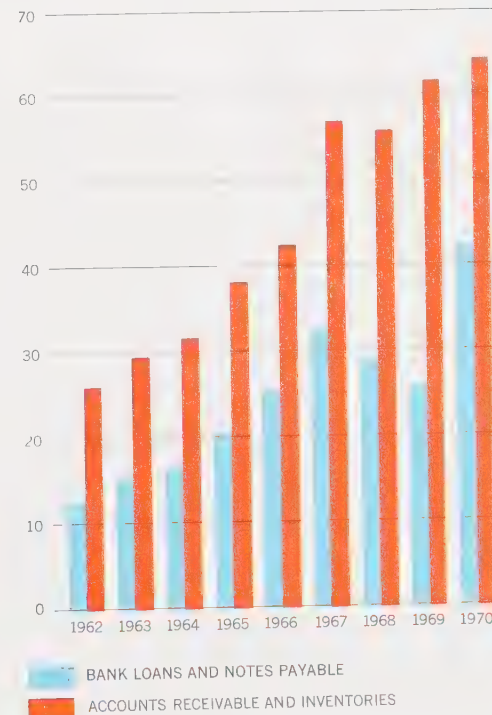
\*Restated

†Consolidated with Canadian Breweries Limited

## Bank Loans compared to Accounts Receivable and Inventories †

FINANCIAL YEARS ENDED JUNE 30

MILLION \$



--- BANK LOANS AND NOTES PAYABLE

--- ACCOUNTS RECEIVABLE AND INVENTORIES

† TOBACCO OPERATIONS ONLY

## Nine-Year Financial Review

(in thousands of dollars)

Operating:	Financial Years Ended June 30:								
	1970	1969	1968	1967	1966	1965	1964	1963	1962
SALES	\$	\$	\$	\$	\$	\$	\$	\$	\$
Tobacco - - - - -	211,981	205,871	173,640	166,014	147,076	134,804	119,064	112,253	92,201
Brewing - - - - -	249,726	—	—	—	—	—	—	—	—
Total - - - - -	461,707	205,871	173,640	166,014	147,076	134,804	119,064	112,253	92,201
Sales and Excise Taxes - - - - -	223,558	131,125	109,860	105,609	95,791	88,116	79,356	74,742	61,770
	<u>238,149</u>	<u>74,746</u>	<u>63,780</u>	<u>60,405</u>	<u>51,285</u>	<u>46,688</u>	<u>39,708</u>	<u>37,511</u>	<u>30,431</u>
EARNINGS									
Earnings before income taxes:									
Tobacco - - - - -	10,195	11,930	8,475	7,712	6,590	5,297	2,308	1,632	( 2,493)
Brewing - - - - -	11,978	—	—	—	—	—	—	—	—
Total - - - - -	22,173	11,930	8,475	7,712	6,590	5,297	2,308	1,632	( 2,493)
Extraordinary items net of income taxes -	( 139)	—	—	—	—	—	—	—	—
Income taxes - - - - -	11,232	6,074	4,405	3,949	3,424	2,839	1,302	821	12
Minority interest - - - - -	3,738	—	—	—	—	—	—	—	—
Net earnings - - - - -	7,064	5,856	4,070	3,763	3,166	2,458	1,006	811	( 2,505)
Net earnings per common share - - - -	\$0.76	\$3.30	\$2.54	\$2.89	\$2.44	\$1.89	\$0.77	\$0.62	( \$1.93)
Common shares outstanding (in thousands) - - - - -	1,600	1,600	1,600	1,300	1,300	1,300	1,300	1,300	1,300
DIVIDENDS PAID									
Preferred - - - - -	5,613	526	—	—	—	—	—	—	—
Common - - - - -	1,200	1,600	325	—	—	—	—	—	—
CAPITAL EXPENDITURES—NET - - - - -	14,059	1,637	3,564	2,010	2,142	2,060	1,818	406	385
DEPRECIATION - - - - -	6,564	1,832	1,634	1,504	1,376	1,226	1,162	1,001	1,025
INTEREST EXPENSE - - - - -	5,342	3,322	1,911	1,413	1,145	1,133	1,045	804	638
Financial:									
WORKING CAPITAL									
Current assets - - - - -	149,608	62,526	56,899	57,465	43,744	38,431	32,068	29,945	26,519
Current liabilities - - - - -	96,769	43,787	40,928	45,194	34,042	32,439	25,772	22,277	19,786
	<u>52,839</u>	<u>18,739</u>	<u>15,971</u>	<u>12,271</u>	<u>9,702</u>	<u>5,992</u>	<u>6,296</u>	<u>7,668</u>	<u>6,733</u>
Ratio - - - - -	1.55	1.43	1.39	1.27	1.28	1.18	1.24	1.34	1.34
TOTAL ASSETS									
Current assets - - - - -	149,608	62,526	56,899	57,465	43,744	38,431	32,068	29,945	26,519
Fixed assets—net - - - - -	119,112	9,796	9,991	8,061	7,555	6,789	5,955	5,266	5,801
Investments and other assets - - - - -	80,056	31,739	12,000	—	—	—	—	—	—
Intangible assets - - - - -	72,059	530	673	3,694	3,496	8,835	10,030	11,407	12,941
	<u>420,835</u>	<u>104,591</u>	<u>79,563</u>	<u>69,220</u>	<u>54,795</u>	<u>54,055</u>	<u>48,053</u>	<u>46,618</u>	<u>45,261</u>
LOANS AND INDEBTEDNESS									
Debentures - - - - -	63,080	14,620	15,000	—	—	—	—	—	—
Other indebtedness - - - - -	301	301	301	301	301	301	3,424	6,490	7,675
Current bank loans and notes payable - -	40,869	25,938	28,809	32,699	25,281	20,358	16,499	15,396	12,831
SHAREHOLDERS' EQUITY - - - - -	139,019	45,353	22,450	22,786	19,923	21,315	18,857	17,851	13,000
BOOK VALUE PER COMMON SHARE - - - -	\$14.21	\$15.81	\$14.03	\$17.53	\$15.33	\$16.40	\$14.51	\$13.73	\$10.00

## Financial Review

Net earnings increased from \$5,856,000 in 1969 to \$7,064,000 in 1970. These include earnings of Canadian Breweries Limited Common shares on a basis of 11 percent from July 1, 1969 to October 31, 1969, and 50.1 percent thereafter.

### SUMMARY OF CONSOLIDATED EARNINGS FINANCIAL YEARS ENDED JUNE 30

MILLION \$

	TOBACCO	BREWING*	TOTAL	1969 TOBACCO ONLY
Sales	\$212.0	\$249.7	\$461.7	\$205.9
Earnings From Operations:				
Before Taxes	10.2	12.0	22.2	11.9
After Taxes	4.8	6.1	10.9	5.9
Net Earnings			\$7.1	\$5.8
Per Common Share (1.6 million shares)			\$0.76	\$3.30

\*From November 1, 1969

### Tobacco Operations

For the year ended June 30, 1970, unit sales of 11,804 million cigarettes reflected an increase of 0.8 percent over sales of 1969. Sales revenue increased by 3.0 percent, or \$6,110,000, to an all-time record of \$211,981,000.

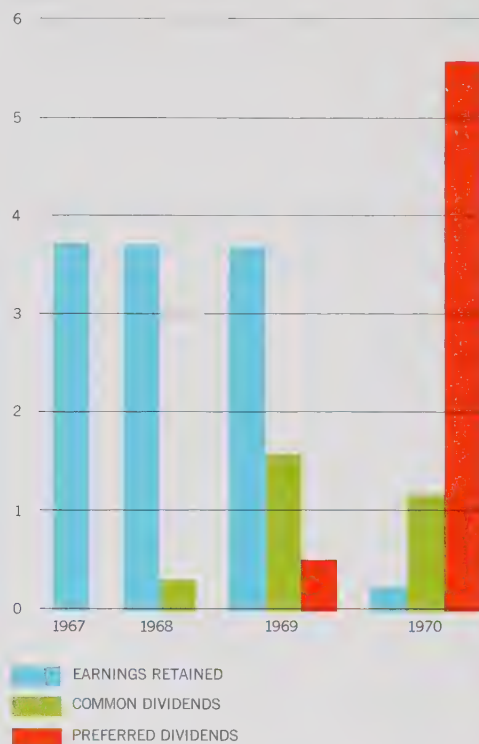
Despite improved operating margins, after-tax earnings from tobacco operations decreased by \$1,043,000; from \$5,856,000 in 1969 to \$4,813,000 in 1970.

The main factors responsible for this decrease were substantial increases in marketing and interest expenses, and lower investment income.

### Appropriation of Consolidated Net Earnings

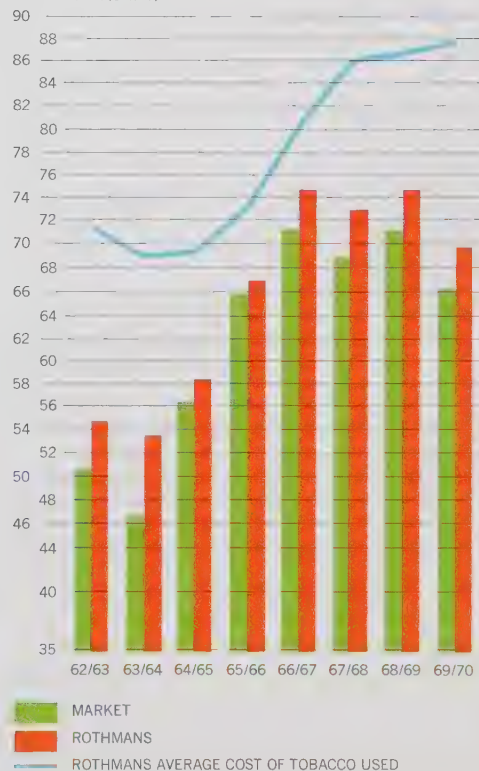
FINANCIAL YEARS ENDED JUNE 30

MILLION \$



### Tobacco Cost and Average Cost of Tobacco Used

COST PER LB. (CENTS)





Tobacco remains the major element of cost, accounting for approximately 52 percent of the total cost of production, exclusive of excise duty. Tobacco costs during 1970 amounted to 88.2 cents per pound (1969—87.2 cents per pound). Tobacco inventories are valued at average cost. At June 30, 1970 tobacco inventories were 45.2 million pounds, valued at 85.9 cents per pound (June 30, 1969—38.3 million pounds; 87.4 cents per pound). The preceding chart depicts the average cost of Ontario tobacco for the years 1962 through 1969.

Labour and overheads also contributed to increased costs during the year under review. During 1970 your Company employed 1,370 people in all aspects of its tobacco operations.

Distribution expenses increased significantly over the previous year. Additional funds allocated to marketing accounted for the major portion of this increase. Freight expenses, however, also increased sharply.

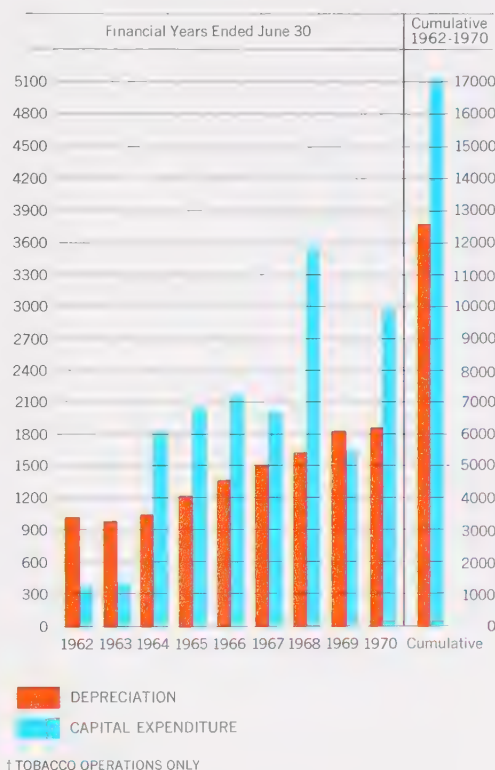
Interest paid during the year amounted to \$3,635,000 (1969—\$3,322,000). This increase was due to the high interest rates which prevailed during most of the year and the high level of bank and short-term borrowings required.

Capital expenditures during the year amounted to \$2,964,000 (1969—\$1,637,000). Major spending included a new warehouse and regional sales offices in Toronto, as well as new production equipment. Depreciation amounted to \$1,821,000, compared to \$1,832,000 in 1969.

Dividends paid on Preferred shares were \$5,613,000 (1969—\$526,000) and were wholly related to the investment in Canadian Breweries Limited. Dividends paid on Common shares amounted to \$1,200,000 compared to \$1,600,000 in 1969.

## Depreciation and Capital Expenditure †

THOUSAND \$



## Financial Position

During June 1968, Rothmans acquired 2,400,000 Canadian Breweries Common shares for \$28,800,000. From April 1969 to November 1969, Rothmans acquired an additional 8,507,487 Canadian Breweries Common shares at a cost of \$109,939,000. At June 30, 1970 your Company's ownership in Canadian Breweries was 10,907,487 Common shares (50.1 percent), acquired at a net cost of \$136,339,000, or \$12.50 per share.

The substantial increase in the investment in Canadian Breweries Limited was primarily financed by the issue of 2,850,000 Second and 1,950,000 Third 6<sup>5</sup>/<sub>8</sub> percent Cumulative, Re-

deemable, Convertible Preferred shares of a par value of \$20 each. The above investment including the creation of these shares was authorized by the Shareholders at a Special General Meeting held on September 10, 1969.

During the year ended June 30, 1970, consolidated working capital increased to \$52,839,000, from \$18,739,000 (restated) in 1969.

Goodwill of \$71,570,000, arises on consolidation of Canadian Breweries Limited and represents

the amount paid for the 50.1 percent interest in that company in excess of the underlying book value at dates of acquisition. Minority interest of \$108,632,000 represents the book value of Canadian Breweries Limited's equity owned by other shareholders.

Bank loans totalling \$35,829,000, are secured by inventories and accounts receivable of the tobacco operations amounting to \$63,863,000 (1969—\$25,938,000; \$61,523,000).



#### ROTHMANS SERVICES TO THE COMMUNITY

Your Company's contribution to both the visual and the performing arts continues to receive recognition from all parts of the country. Currently, three collections, on loan from the Rothmans World Group of Companies, are on

exhibition at art galleries and museums in various parts of Canada.

Organizations associated with the performing arts also continue to receive practical support through the production of high-quality souvenir programmes, the proceeds from which are retained by each individual organization for their own use.

Selected sports activities form another area of

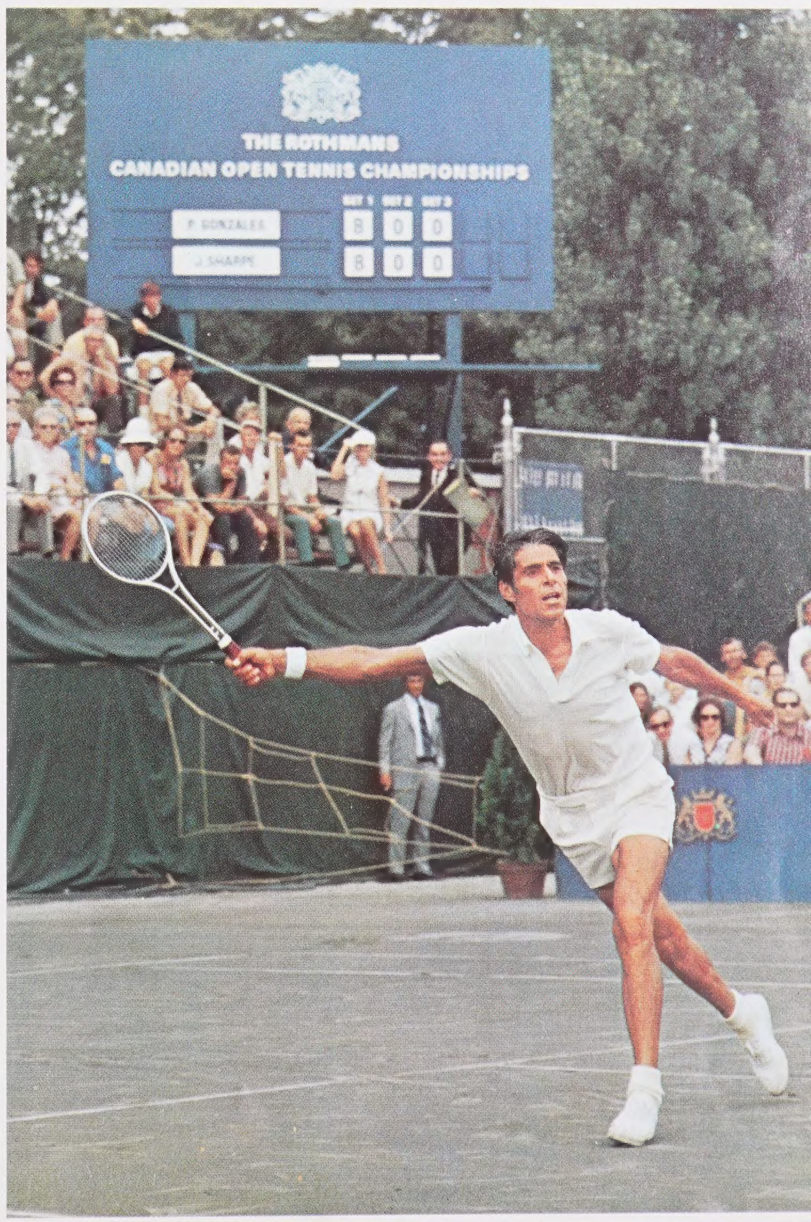




community life where your Company has made a firm commitment for good corporate citizenship.

Rothmans special events caravans continue to assist, free of charge, many non-profit organizations in their activities across Canada. The caravans are fully equipped to function as control centres for outdoor events and offer complete sound, lighting and communications systems.

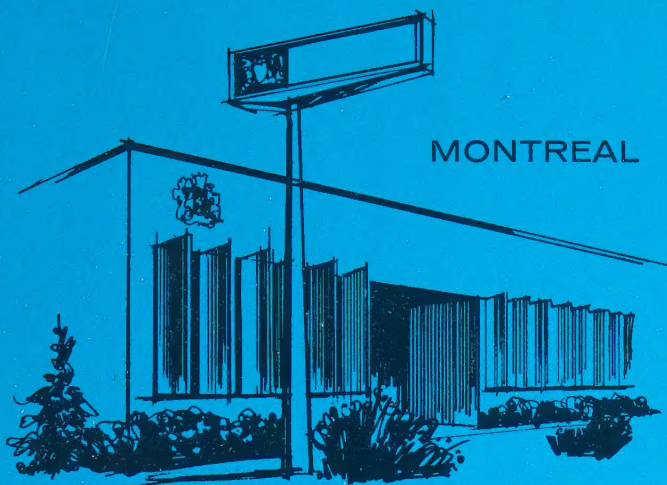
Special units directed towards the service of tennis, sailing regattas and equestrian events, incorporating in many instances the use of the most specialized equipment available, form part of your Company's record of community activity and public service.



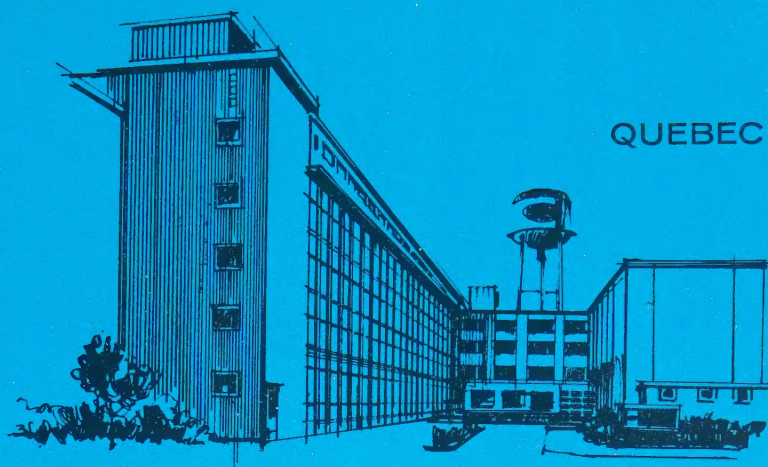


*Head Office:* 75 DUFFLAW ROAD, TORONTO 19, ONTARIO  
*Auditors:* PRICE WATERHOUSE & CO.  
*Bank:* BANK OF MONTREAL  
*Registrar & Transfer Agent:* THE ROYAL TRUST COMPANY  
*Solicitors:* WAHN, MAYER, SMITH, CREBER, LYONS, TORRANCE & STEVENSON





MONTREAL

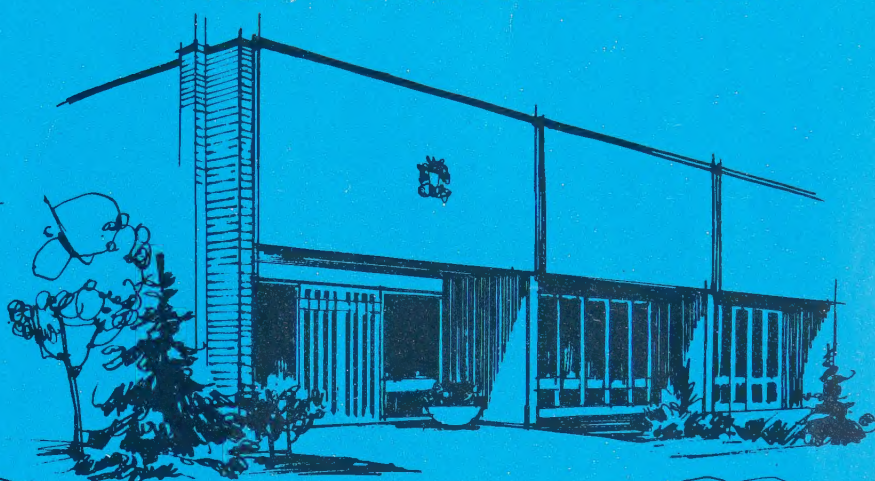


QUEBEC

OFFICES, WAREHOUSES AND  
PLANTS ACROSS CANADA



HALIFAX



WINNIPEG



VANCOUVER



CALGARY



TORONTO





ROTHMANS OF PALL MALL CANADA LIMITED



ANNUAL REPORT 1970